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Pensions & Investments

The Newspaper of Corporate and Institutional Investing

$9 An Issue $135 A Year

AT DEADLINE

8 sign MacBride Principles

Eight U.S. companies agreed to abide by the MacBride Principles, thanks to the efforts of the New York City and New York State and Local retirement systems, the Minnesota State Board of Investment and religious groups.

Companies signing the agreement — covering fair employment practices in Ireland — are American Home Products, Alexander & Alexander Services, NACCO Industries, Oneida, Procter & Gamble, Sonoco, Texaco, and Teleflex.

Rennie joins PIMCO

Edward Rennie, formerly executive director-trust investments at Bell Atlantic, was named vice president and director of new product services at Pacific Investment Management Co.

Funds' hirings set

CIBA-GEIGY Corp. named Bankers Trust Co. master trustee for its $650 million pension trust and trustee for its $550 million savings plan. The firm also will manage a total of $250 million in passive equities for both plans. . . . The $550 million San Jose Police and Fire Department Retirement Plan hired Baring International Investment Ltd. and GIM Global Advisors Inc. to manage $15 million each in international equities and foreign bonds, respectively. . . . The $450 million San Jose Federated City Employees' Retirement System hired PCM International and The Putnam Cos. Inc. to run $15 million each in international equities and foreign bonds, respectively. . . . The $6 billion New York City Police Department fund hired Bank of Ireland Asset Management to manage $60 million in international equities.

INSIDE

Illustration by Ted Puka

404(c)? Just sit tight

With publication of regulations on employee-directed plans under Section 404(c) around the corner, perhaps the best course of action is no course of action, and the smart move is no move — just do nothing. In Commentary, Page 16.

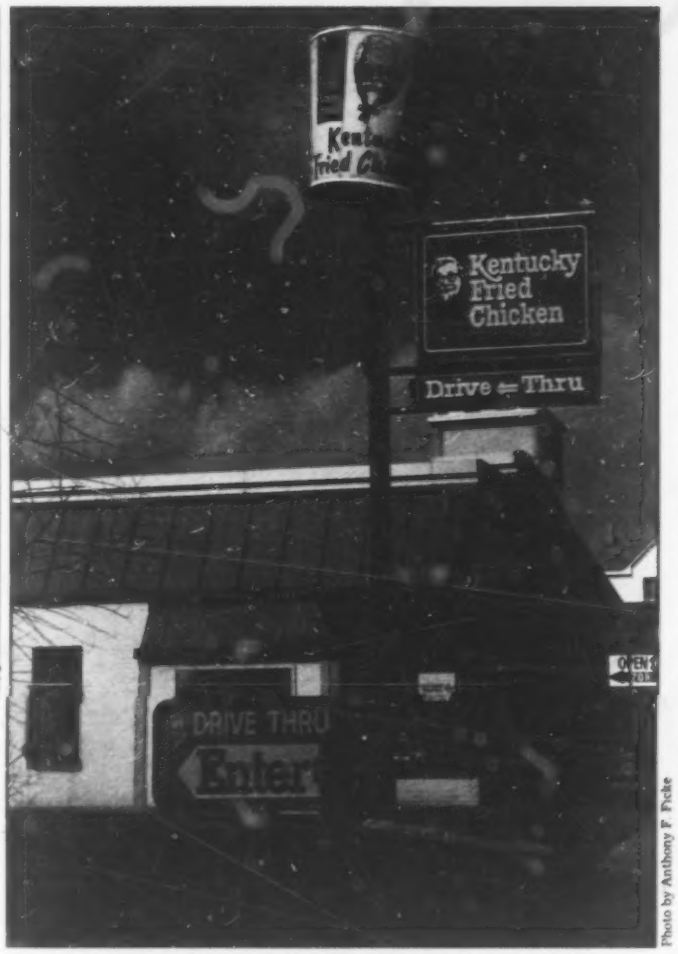

Photo by Anthony F. Picke

Kentucky Fried Chicken, a unit of PepsiCo Inc., jumped on the new-issue bandwagon through the sale of a minority stake in its KFC Japanese subsidiary in a public offering.

Foreign IPO boom rolls through Japan

By Marlene Givant Star

More subsidiaries of U.S. and other foreign corporations are raising capital in Japan by selling off minority stakes to the public, attracted in part by Japan's relatively high price-earnings ratios.

At the same time, as Japanese over-the-counter stocks rally, more of Japan's own privately held companies are expected to go public, reviving the moribund initial public offering market. Growth in the IPO market will be fueled by increasingly relaxed registration requirements, pending installation of a sophisticated NASDAQ-type trading system for OTC stocks and promises of more liquidity, investment bankers say.

In addition, pent-up demand by Japanese investors — including pension funds — for smaller stocks, will encourage a pick-up in IPOs. The expansion could attract more foreign investment in the OTC market as well.

For foreign parent companies, selling stakes in their subsidiaries offers attractive returns on their Japanese investment and a chance to raise capital locally for expansion of their businesses in Japan. They also allow for the establishment of stock ownership plans, in which Japanese employees can own shares in the local unit.

That was a factor behind the most recent IPO by a foreign subsidiary. On Feb. 25, U.K.-based Unitech PLC sold a 26% stake in its Nemic-Lambda Co. Ltd. unit, an electronic parts manufacturer, raising a total of 6.7 billion yen, or $50.7 million.

The deal also was driven by the market's valuations, which are still attractive by Western standards, although not as high as they were in the summer of 1990 when Kentucky Fried Chicken Co.'s subsidiary went public at a p/e of a whopping 75.2.

Said Peter Curry, Unitech's chairman: "We wished to raise capital in Japan on a Japanese valuation basis." The subsidiary's stock sold at a generous 35 times earnings, and has traded subse-

See **Japan** *on page 44*

Minorities statute hits 4 managers

Law knocks firms from CalPERS race

By Steve Hemmerick

The $62 billion California Public Employees' Retirement System eliminated four money managers from competing for real estate investment contracts on grounds they hadn't made good-faith efforts to subcontract with minority- and women-owned firms.

New state laws on minority subcontracting and drug-free workplaces are putting additional pressure on investment firms seeking business with the state of California.

Security Pacific National Bank Trust Group, Los Angeles; Meyer Real Estate Advisors Inc., Anaheim, Calif.; Wellington Real Estate, Boston; and GIM Global Advisors Inc., Newark, N.J., were eliminated from the list of 54 managers seeking the real estate assignment.

Being knocked off of the California fund's list could endanger the managers' chances of getting hired by other pension fund officials who have made minority subcontracting an issue.

Speaking about the California fund's decision, Dena Willmore, senior vice president at Wellington, said: "We're very disappointed in their response to our efforts" at subcontracting. She said the firm is putting its emphasis on "making sure we diversify our workplace" by race and gender.

Although it is "unfortunate" Wellington's efforts didn't meet the retirement system's criteria — which focused on subcontracting — Ms. Willmore added, "But the law is the law, and we think their concerns are extremely valid."

David M. Garcia, vice president for corporate communications, said Security Pacific Bank has an extensive program for minority subcontracting, but that program wasn't identified on the application that was sent to the California Employees' fund.

Last January, said Mr. Garcia, Security Pacific announced it would expand its annual $2.5 million subcontracting program with minority- and women-owned firms to $10 million per year over the next four years, and $25 million in the fifth year.

S.W. DellaGrotta, a senior vice president with Meyer, hadn't heard his firm had been eliminated because of the subcontracting issue. He reserved comment.

Joseph Reed, president of GIM Global Advisers, Greenwich, Conn., said it was a mistake to say his firm hasn't made good faith efforts to subcontract with women and minorities. He said the only company GIM has subcontracted with was a women-owned graphics firm in San Francisco. He added that he doesn't believe his firm received a letter from the California fund that was supposed to ask about the good faith efforts in subcontracting with women and minorities.

He said that he had applied with the California fund as a sector adviser for international real estate investment but subse-

See **Minority** *on page 45*

Shareholders ablaze over tobacco issue

N.Y.C. systems submit resolutions

By Hillary Durgin

WASHINGTON — Shareholder resolutions on tobacco-related issues received a big boost from the Supreme Court decision last week to hear a case that could expose the tobacco industry to billions of dollars in liabilities.

Tobacco stock prices plunged following the high court's decision, bolstering institutional investors' belief that tobacco is an issue that affects not only society's health, but also investors' wallets.

Momentum on the issue is building. The $40.8 billion New York City Retirement Systems' decision to co-sponsor proposals at Philip Morris Cos. Inc., New York, and Loews Corp., New York, has given added clout to the six different shareholder resolutions pending at eight companies.

New York is the first public pension fund to throw its weight into the corporate governance tobacco debate, which until now has been dominated by religious investors groups coordinated by the Interfaith Center on Corporate Responsibility, New York.

"This is not a case where social issues transcend financial results — they go hand in hand," said Gelvin Stevenson, director-investor responsibility at the New York City system. The resolution at

See **Tobacco** *on page 42*

NEWS DIGEST

Photo by Michael A. Marcotte

Although selling securitized mortgages on Saks Fifth Avenue department stores has been tough, bankers still believe the timing is right for other real estate securitizations. Page 30.

The possible sale of TWA to Kirk Kerkorian is being reviewed by the PBGC. Page 46.

SPECIAL REPORT: DEFINED CONTRIBUTION PLANS

Myriad issues surround the use, administration and regulation of the retirement vehicles, which seem to become more prevalent with time. Page 23.

FINANCING

Stock issuance by Japanese subsidiaries of foreign companies is on the rise. Page 1.

Price Communications reconsiders its restructuring after Fidelity Investments blocks one plan. Page 6.

INTERNATIONAL

Lending foreign bonds gains popularity with U.S. funds as U.K. plans ease into overseas deals. Page 2.

REAL ESTATE

United Asset Management gets a traditional real estate manager through a small stake in AEW. Page 2.

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AEW sells stake in firm

$15 million infusion to boost staff, mortgage activities

By Terry Williams

BOSTON — United Asset Management acquired a passive minority interest in Aldrich, Eastman & Waltch Inc. for $15 million in late March.

AEW will use the cash to add staff, boost research and increase its capabilities as a lending intermediary to take advantage of opportunities it perceives a down real estate market presents.

The Boston-based real estate investment manager, which has $5 billion in institutional assets under management, is best known outside pension circles for structuring the refinancing of Chicago's Sears Tower.

The investment is UAM's first in a mainstream real estate money manager, and the first time it hasn't bought 100% of a firm. UAM owns 24 investment management firms with more than 4,400 clients and $45 billion under management.

"To capitalize (on opportunities), we need money in the firm," said Thomas Eastman, managing partner.

AEW Chairman Peter Aldrich emphasized UAM's investment doesn't mean AEW's founders are looking to cash out.

"We think that the only thing that is important is it provides us with the capital we believe will allow us to achieve our plans, at a cost that 's a small passive minority interest," said Mr. Aldrich. "We are tremendously optimistic about the future."

According to Mr. Aldrich, the infusion will be used to expand the firm's asset management and research capabilities, and develop its single-tenant and international property investment businesses.

The proceeds also will be used to enhance AEW's position as an intermediary for real estate lending and purchases of commercial mortgage portfolios by pension funds.

Amy Anthony, Massachusetts' former housing secretary, was hired to lead AEW's apartment lending activities, an area AEW believes will present a "robust" opportunity because of the "disintermediation of the real estate capital markets," said Joseph Azrack, an AEW principal.

"We must replace the thrift-based, multifamily finance industry that was based on the savings and loans, which are now disassembled," Mr. Aldrich said.

AEW plans to buy portfolios of commercial mortgages made last decade. In August, AEW bought Secured Portfolios, Los Angeles, a company of mortgage traders that was formed a year ago by former traders at Drexel Burnham Lambert Inc.

"We acquired them to capitalize on the government and the thrifts being sellers of pools of commercial mortgages in the secondary market," Mr. Azrack said. "We both had the same view about what was happening in the marketplace."

The acquisition of Secured Capital convinced the AEW principals to look at other means to raise money. "That acquisition highlighted for us the price we would

See **AEW** *on page 46*

Securities lending spreads

Overseas bonds are newest twist

By Trudy Ring

As foreign bonds have become more popular with U.S. pension funds, so has the lending of these securities, attracting such participants as the California Public Employees' Retirement System and the E.I. du Pont de Nemours & Co. pension fund.

Several global custodians have begun offering international fixed-income securities lending within the past year, and most fund sponsors that have significant non-U.S. bond holdings have been receptive, the custodians report.

Fund sponsors stand to add anywhere from 40 to 200 basis points of return annually from foreign bond lending, which has a ready supply of borrowers in broker-dealers who are seeking to cover short sales or put up collateral in bond futures transactions.

The $61 billion California Public Employees' fund, Sacramento, is a new entrant into international bond lending, as well as international stock lending. The fund recently hired Bankers Trust Co., New York, to act as lending agent. The fund has $5.2 billion in international equities and $2.8 billion in international bonds. "We understood there was a lending opportunity for both," said DeWitt Bowman, chief investment officer.

DeWitt Bowman sees opportunities in bond lending.

Ron Boller is investigating "compelling economics."

The California fund's master and global custodian, Boston Safe Deposit & Trust Co., has lent securities for it, but fund officials just decided they wanted the international lending activity run separately by Bankers Trust, Mr. Bowman said. It has used other domestic securities lenders as well, he said.

Du Pont has been lending non-U.S. bonds for a few years, said Lawrence Starratt, manager of securities lending. Du Pont went into this area because of its better-than-average profit potential due to the limited supply of, and excess demand for, foreign bonds, he said.

DuPont, based in Wilmington, Del., has about $500 million of its $11 billion defined benefit assets in non-U.S. bonds; only about $30 million worth of bonds has been

See **Foreign bonds** *on page 43*

U.K. funds slow to start programs

By Margaret Price

U.K. institutional investors are warming to foreign securities lending, but the debate continues over the degree of participation that will come from the pension funds, an important source of foreign securities.

Already, some pension funds, such as the British Coal Pension Funds and the British Rail pension fund, are lending foreign securities after the practice got the green light from Inland Revenue Jan. 7. And Morgan Grenfell Investment Management Ltd., London, has permission to use about 33% of its $11.3 billion in assets from U.K. clients -- mostly pension funds — for foreign or domestic securities lending.

Gerald Hough, a director at Morgan Grenfell, expects "that without a doubt there will be a large number of new lenders in the marketplace within the next 12 months."

British Rail Pension Trustee Co. Ltd., London, is participating in foreign stock lending. "Two managers are currently lending foreign stocks in our behalf and possibly one or two others will do so in the next half year," said David Adams, chief executive of the $13.3 billion fund.

The fund probably will not lend more than about 250 million pounds (about $447 million) in foreign stocks, he said. It has been lending domestic stocks for about 18 months, and began foreign stock lending last year.

But pension funds aren't expected to rush into foreign stock lending — even though some U.K. money managers and insurers are hot on that trail. For pension funds, safety has been one concern, and persuading trustees to

See **Programs** *on page 46*

How TAA managers performed

(Calendar year 1990)

J.H. Ayers	14.0%
Wells Fargo Nikko	**8.9**
First Interstate Bank	6.0
R.M. Leary (composite)	**5.9**
J.P. Morgan	5.0
First Quadrant (combined global)	**5.0**
Brinson Partners (global)	4.9
Renaissance	**4.7**
PanAgora Asset (balanced)	4.5
Brinson Partners (domestic)	**4.4**
Bankers Trust (actively managed components)	3.2
First Quadrant (domestic)	**3.2**
QuantiLogic	3.0
Bankers Trust (indexed components)	**2.9**
Chancellor Capital (3-way)	2.3
Mellon Capital (tangent added)	**2.3**
Callan Associates (median balanced manager)	2.3
TSA Capital (3-way)	**2.1**
PanAgora Asset (equity oriented)	2.0
DeMarche Associates (median TAA manager)	**2.0**
Mellon Capital (asset allocation)	1.8
Avatar Associates (3-way index)	**1.7**
Static mix of 60%stocks, 40%bonds	**1.5**
PDI (60-40 normal)	**1.4**
Matrix Capital (domestic)	1.3
Prime Asset	**1.0**
DeMarche Associates (median balanced manager)	0.9
Callan Associates (median TAA manager)	**0.7**
Chancellor Capital (2-way leveraged)	-0.6
Kidder Peabody Asset (balanced)	**-0.9**
Beacon Capital (balanced)	-1.1
Avatar Associates (2-way index)	**-1.4**
S&P 500	**-3.1**
TSA Capital (equity oriented)	**-3.1**
Chancellor Capital (2-way)	-3.4
Beacon Capital (equity)	**-5.2**
Davis, Weaver & Mendel	-8.1
Matrix Capital (global)	**-16.0**

Many TAA firms beat the S&P 500

By Sabine Schramm

Tactical asset allocators' rebalancing strategies performed well in 1990, reacting to signs for poor economic growth and the unanticipated Middle East crisis, which drove the stock and bond markets in August.

Of the 22 TAA managers surveyed by *Pensions & Investments*, only one failed to outperform the Standard & Poor's 500 Stock Index last year. Three managers bettered the index with one TAA strategy and underperformed with another; one manager bettered the index in two strategies and tied the index in a third.

TAA managers employed a variety of asset repositioning strategies, underweighting equities and shifting assets into long-term bonds and cash during the first three quarters of the year. By early November, most were back in the stock market with equity weightings that reflected their models' ideal target allocations.

Investor pessimism and lower interest rates early in 1991 have kept most TAA managers bullish on the stock market, reflected in increased equity allocations in January.

Last year was not a bright year for the stock market and a fair one for bonds. The S&P 500 returned −3.1% for calendar 1990, compared with 31.6% in 1989. The Shearson Lehman Brothers Government/Corporate Bond Index returned 8.3%, compared with 14.2% the previous year. A mix of 60% stocks and 40% bonds, using these indexes, would have returned 1.5%, well behind the 1989 return of 24.6%.

The median TAA manager in DeMarche Associates Inc.'s universe fared well in 1990, returning 2% vs. 0.9% for its median balanced manager. But the median TAA manager in San Francisco-based Callan Associates Inc.'s universe returned 0.7% for the year, while its median balanced manager returned 2.3%. (Returns differed between the two universes mostly because there are different managers in each.)

"Most TAA managers went into 1990 conservatively positioned and it paid off," said William E. Koehler, director of research at DeMarche, Westwood, Kan. "The job of the TAA manager is to add value through reducing risk, and most firms have been successful at doing that. They're doing what they advertise."

Brian Christensen, investment management administrator for the $4.2 billion Caterpillar Inc. pension fund, Peoria, Ill., agreed. "We feel in 1990 TAA performed as we expected it to. It outperformed the S&P, and we were satisfied — very satisfied — with how it did and has done in the years we've been in the strategy." Caterpillar has two TAA managers, which Mr. Christensen declined to identify. According to *P&I's* annual survey of pension funds, one is Mellon Capital Management Inc., San Francisco.

Monsanto Co., St. Louis, was satisfied with the performance of its TAA manager, Chancellor Capital Management, New York. Chancellor outperformed its benchmark, said Pamela Moench, manager of pension asset invest-

See **TAA** *on page 44*

Avon, shareholders agree

Pre-proxy deal calls for investor meetings, secret vote

By Marlene Givant Star

NEW YORK — Avon Products Inc., long under siege by dissident investor group Chartwell Associates, has become the first company to agree to hold semiannual meetings with shareholders to discuss performance and corporate governance issues.

In addition to that agreement, reached with the California Public Employees' Retirement System, Avon also announced it will adopt a United Shareholders Association-sponsored policy on confidential voting.

New York-based Avon is one of a record number of companies this proxy season that have met shareholder demands before annual meetings to avoid placing proposals in proxy ballots.

Corporate governance experts hailed the agreement with the California fund, predicting it will set a precedent for bringing institutional shareholders closer to corporate managements. They also said the accord shows how annual meetings are not sufficient to meet the needs of institutional investors.

"Excellent, outstanding . . . They've agreed to talk in a structured environment on a regular basis. Congratulations to both Avon and CalPERS are in order," said Howard Sherman, vice president of Institutional Shareholder Services Inc., Washington.

Some institutions think changes in the whole corporate governance process are needed.

"What is the purpose of annual meetings if 90% of votes are not represented at the meetings?" asked Albert J. Wilson, vice president of the Teachers Insurance and Annuity Association — College Retirement Equities Fund, New York.

Because of Avon's agreement, the California fund has dropped its resolution calling for establishment of a shareholder advisory committee. The fund rescinded a similar resolution filed with Sears, Roebuck & Co. when the company agreed to hold semiannual meetings with the fund. But Avon is the first company to agree to meet not only with California, but with all of its top 20 institutional holders as well as representatives of the United Shareholders Association.

Under the USA agreement, Avon will adopt a policy in which shareholder proxies, ballots and voting materials will be kept permanently confidential for all matters other than contested elections. USA will release the company from its 1991 Target 50 shareholder activism campaign and assist in the withdrawal of proposals that have been submitted to the company by USA members. Several other companies have adopted confidential voting policies, including Baxter International Inc., Colgate-Palmolive Co., General Signal Corp., K mart Corp., Nalco Chemical Co. and Weyerhaeuser Co.

Both Avon and Sears been targeted by institutional investors seeking to improve corporate performance. Representatives of Avon's management and indepen-

See **Avon** *on page 46*

Cosmetic manufacturer Avon Products' agreement with shareholders might ease the pressure on the besieged firm.

Fund eliminating junk bonds

Other asset classes eyed by CalPERS

By Steve Hemmerick

SACRAMENTO, Calif. — The California Public Employees' Retirement System is dropping junk bonds as an asset class, confirmed Charles Valdes, chairman of the investment committee.

The decision was made in a secret session, but Mr. Valdes said it was based on a belief the junk bond market is declining. Trustees decided other alternative investment classes — which Mr. Valdes wouldn't name — are superior in terms of risk and return.

The California Employees' fund has less than 1% of its $62 billion total assets in junk bonds, not enough to materially affect the overall portfolio. Some trustees believed the fund either had to increase its holdings or drop them entirely. Kathleen Brown, the new state treasurer, made the motion to liquidate the junk bond portfolio.

The size of each asset class is important to a large pension fund. A small or declining market presents a potential investment strategy and liquidity problem for a huge investor like the California fund.

To avoid causing any immediate financial pain to its holdings or those of other investors, the fund intends to sell its portfolio over a period of several months, according to Mr. Valdes.

Although the system originally had $500 million in junk bonds, it values its holdings at $380 million today, primarily because of the market decline, according to DeWitt Bowman, chief investment officer for the fund.

Trustees picked six finalists from among 24 bidders to manage and liquidate the junk bond portfolio, which has been managed in-house. They are: Washington Square Advisers, Minneapolis; Trust Co. of the West, Los Angeles; Loomis, Sayles & Co. Inc., Boston; Caywood-Christian Capital Management, San Diego; Lord, Abbett & Co., New York; and Delaware Investment Advisers, Philadelphia.

The winner, expected to be chosen in a month, will assume positions on bondholder committees for several distressed companies. Those committee positions now are held by fund staff members.

Mr. Bowman said the board wanted the expertise of a manager that actively trades in the market every day to get the highest prices possible for the fund.

See **Junk** *on page 46*

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Fidelity pulls plug on packaged deal

Price to rethink reorganization strategy

By Marlene Givant Star

NEW YORK — A pre-packaged bankruptcy plan proposed for Price Communications Corp. has been blocked by Fidelity Investments and other convertible bondholders.

The troubled publishing and broadcasting company, which defaulted on its bonds in January, is putting the final touches on a new plan that should be ready in mid-April. Price must decide whether to negotiate with Boston-based Fidelity and the other holdouts, or take the chance of filing the new proposal with the Securities and Exchange Commission in the hope of securing agreement from everyone except Fidelity. Price must achieve 66⅔% approval from the holders of each class of its $282 million in bonds for the plan to be effective.

Fidelity — which felt the March 7 plan represented a "quick fix" and contends the proposal does not remove enough leverage from Price's balance sheet — hinted a resolution would be forthcoming.

"We have taken certain efforts to propel this thing along. We're not just sitting around waiting for something to happen. We're moving to resolve the impasse quickly and really to protect our investment," said David Breazzano, comanager of the Fidelity Capital & Income Fund, which buys low-quality and distressed securities. He declined to be more specific.

Price's proposal called for the $105 million issuance of two classes of payment-in-kind bonds and gave junior subordinated noteholders the majority of the company's equity.

Disputes among creditors have become increasingly common in the past 18 months, as different types of institutions have divergent objectives. The deadlocked Price negotiations also point up what some consider a shortcoming of pre-packaged bankruptcy plans, an option virtually all companies prefer to traditional, drawn-out bankruptcy proceedings.

Pre-packaged bankruptcies — a relatively new phenomenon — shorten the bankruptcy process to several months instead of the typical two to four years, because a company's creditors already have agreed to the terms of a reorganization plan. The pre-packaged plans allow a company to save money on legal and financial advisory fees and help avoid the operating problems bankruptcy can cause a company, according

See **Fidelity** *on page 45*

CORRECTIONS & CLARIFICATIONS

- **CGR Advisors** should not have been included in the Feb. 4 Scoreboard listing of real estate managers. CGR has no tax-exempt assets under management.
- **St. John's Hospital**, Detroit, hired three external managers for its funded depreciation account. The hospital was identified incorrectly in the March 4 issue.
- In a March 18 article on alternative guaranteed investments, a product using mortgage-backed securities as its underlying asset base was said to be offered by **Pacific Investment Management Co.** The product is offered through PIMCO's parent, **Pacific Mutual Life Insurance Co.**
- A story in the March 18 issue misreported the amount **New York Life Insurance Co.** held in foreclosed real estate properties as of Sept. 30. The correct figure is $179 million.

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MONEY MANAGERS

NCM Capital gets extra credit for work with students

■ The check was signed, sealed and delivered when Hillary Moore, a trustee with the $40 million Transit Management of Southeast Louisiana pension fund, New Orleans, challenged Justin Beckett of NCM Capital Management to do more than just take the system's money and get out of town.

"I challenged him to give a return to my community," said Mr. Moore, recalling that day in 1987.

Mr. Beckett, a senior vice president with NCM, and President Maceo Sloan responded to Mr. Moore's challenge by coordinating a stockbroker's training course at Southern University that goes beyond classroom instruction to include meetings between students and professionals that service the fund.

Contributing time is neither expensive nor burdensome, according to Mr. Sloan.

Local firms invite the students into their offices for a day. Representatives of out-of-town firms stay an extra day during visits with the fund's trustees.

"When you take a semester and you divide the time that the class meets between 12 firms, you are not talking about a lot of time or money," Mr. Sloan said. "It means the world to these kids."

According to Mr. Moore, if not for the program, the students at Southern, a largely black college, might not become exposed to the securities industry. "I feel and believe that kids in a small black college in my community should be able to see the money that can be made in the institutional investment business," he said.

NCM Capital's Maceo Sloan, right, instructs a Southern University student on investing.

ECONOMY

'Feeble' recovery seen in 2nd half

■ One northern neighbor has a chilling outlook for the U.S. economy.

Despite oft-heard forecasts of an economic revival in the second quarter, Francis A. Scotland, managing editor of BCA Publications Ltd., a firm of consulting economists and editors in Montreal, sees no rebound before the second half of this year. And even then, the recovery should be "feeble," he thinks.

Banking woes coupled with foreigners' declining interest in buying U.S. debt securities will weigh on the economy, he predicted.

"The difference between (downturns in) the 1970s and 1980s is that financial problems were previously more localized. This time banking's problems are systemic," he said.

Mr. Scotland points to a U.S. banking system that is not lending." Even some easing of monetary conditions by the Federal Reserve — and thus lower interest rates — isn't firing up banks' appetite for lending. In his view, commercial banks "think they need to raise lending standards independent of interest rates." At the same time, he notes many of the large money-center banks also lack adequate capital for lending.

Of course, a resumption in bank lending should help rekindle economic growth.

Specific recovery signals he'd look for: lower interest rates in Germany and Japan; an upturn in money supply; and "rallies in financial stocks relative to the entire market."

PEOPLE

Adviser gearing up for expansion

■ Reinhart-Burgan Capital Management Inc., Naples, Fla., is ready for growth and expansion with the addition of a second key executive.

James E. Reinhart, formerly vice president and manager of Shearson Lehman Brothers' Naples office, has been named president of Reinhart-Burgan. He joins W. Wayne Burgan, chief investment officer, who founded the firm as Burgan Investment Management Associates in 1988.

Mr. Reinhart will be responsible for marketing and client service, along with some portfolio management duties.

"Wayne wanted to have somebody to bounce ideas off of," Mr. Reinhart said. The firm will add another portfolio manager and will open an office in Milwaukee later this year, he added.

Reinhart-Burgan, an equity and balanced manager, runs $70 million, half of which is tax exempt. The firm is pursuing more pension fund clients, many of which are wary of hiring a one-man shop, Mr. Reinhart said.

For his part, Mr. Reinhart noted that in the brokerage business, he spent a lot of time recommending money managers and decided he'd like to have a firm of his own.

Reinhart-Burgan uses a fundamental value approach to equity investing. In 1990, its discretionary equity accounts returned 13.2%, while the Standard & Poor's 500 lost 3.1%.

James Reinhart, right, has joined W. Wayne Burgan at Reinhart-Burgan Capital.

REAL ESTATE

No quick fix for office vacancies

■ The U.S. office vacancy rate won't drop below 15% before the year 2022, predicts the real estate research department at Salomon Brothers Inc.

That forecast, three times the rate considered optimum, includes an estimate that the office construction rate will be cut in half from the current level.

In its report "Office Market Conditions Deteriorate: Rough Road Lies Ahead," Salomon researchers estimate nearly 50,000 office jobs will be lost in 1991.

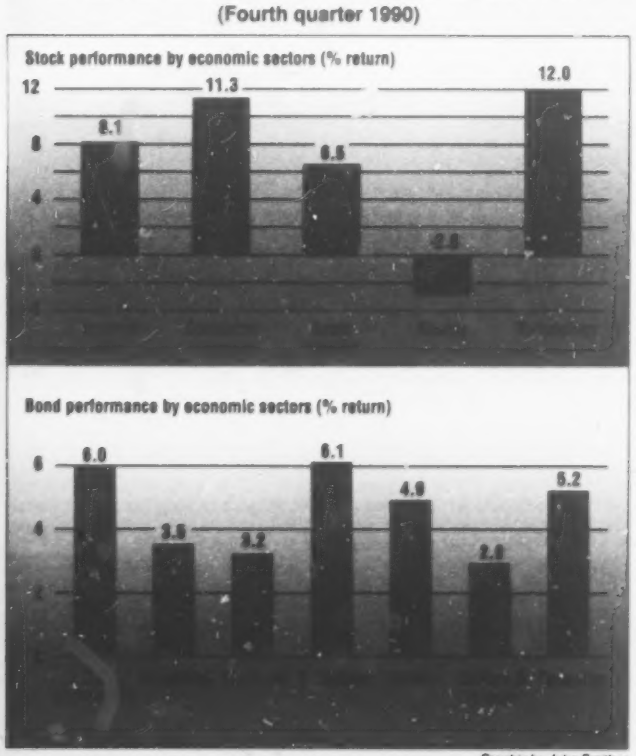
Even though the nation is in a recession, the report said there has been a long-term and possible permanent retrenchment in some industries that use office space.

Even after the current recession, the growth rate in office employment will be well below the 6% average from 1983 to 1988, the report said. Currently, there is a 10-year supply of office space, 498 million square feet.

But some markets will have a lower vacancy rate than others. The report predicted vacancy rates in July 1992 of 6.3% for Honolulu; 12.6%, Seattle; 13.4%, Portland; 14.1%, San Francisco; 14.3%, San Jose, Calif.; 14.4%, Salt Lake City; 14.6%, Jacksonville, Fla.; 14.9%, Kansas City, Mo.; 15.2%, Columbus, Ohio; and 15.6%, Raleigh-Durham, N.C.

DeMarche performance universe

(Fourth quarter 1990)



Graphic by John Smither

INVESTING

Swift to pay fees on energy fund

■ Swift Energy Co., a major Houston independent oil company, has begun offering the first no-load oil and gas income partnerships for retail and institutional investors.

Bruce Vincent, senior vice president-funds management at Swift, said the new $300 million no-load Swift Depository Interests program addresses the two principal obstacles many have toward energy partnerships — liquidity and high front-end costs.

Mr. Vincent said 100% of investors funds will be used to acquire producing oil and gas properties. Swift will pay out of its corporate funds all selling commissions, offering expenses and formation costs.

Mr. Vincent said the no-load aspect will increase investor returns by 20% to 25% over similar loaded partnerships. The partnership — which purchases proven producing, primarily natural gas properties — would begin liquidating in five to nine years. The anticipated overall return to investors, he said, is 12% to 15% annually.

The partnership, launched late last month, has yet to land its first investor.

CORPORATE GOVERNANCE

Heard lends his voice to ISS team

■ James Heard, a leading corporate governance expert, has joined Institutional Shareholder Services Inc., Washington, as senior adviser.

At ISS, Mr. Heard will have far-ranging responsibilities, including editing and writing various reports, speaking and product development.

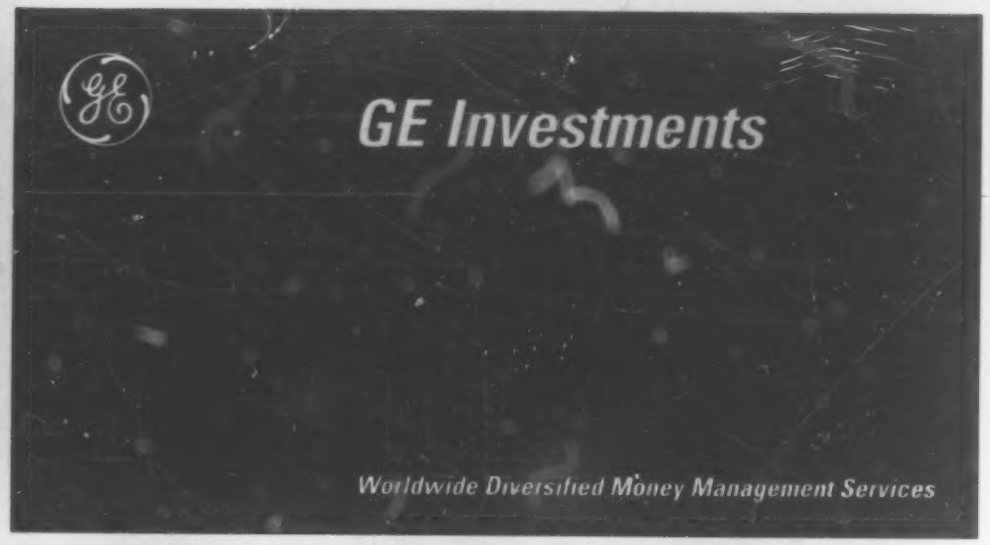
J. Heard

He previously was managing director at Analysis Group, a consulting firm. Before that, he had been the first executive director of the United Shareholders of America and deputy director of the Investor Responsibility Research Center, both in Washington.

Mr. Heard left Analysis Group because it "didn't have a commitment" to corporate governance, he said. The consulting firm also suffered the loss of Lilli Gordon in January, who left to set up her own firm.

Michael Koehn, a principal in Analysis Group's Los Angeles office, said the firm is redefining its scope of services and will move toward providing individual consulting services, instead of focusing on writing issue briefs.

He said the subscription service tried to be "too many things to too many people," was not cost-effective and ran into conflicts with clients. "We've got to pick our niche a little more carefully," Mr. Koehn added.



Analytical software offered for fixed income by Wilshire

By Steve Hemmerick

SANTA MONICA, Calif. — Wilshire Associates, Santa Monica, has entered the computer desktop market for portfolio analytics with a new software product for fixed-income assets.

The software package — called the Wilshire Fixed Income Management Service — requires Intel 80386 microprocessor-based hardware and the OS/2 operating system. Previously, Wilshire clients were on a time-sharing procedure and used a modem to link up to a Wilshire mainframe or minicomputer, according to Robert J. Raab Jr., a senior vice president at Wilshire.

That telephone hook-up procedure wasn't optimal because it was less interactive than a desktop-based system, and telephone line noise could garble the data, said Mr. Raab. Besides not having to time share, the new workstation uses a graphical user interface and a computer mouse for point-and-click operation.

Some of Wilshire's competitors already offer desktop portfolio analytical software. But Dennis Tito, Wilshire's president, said those products use less powerful MS-DOS and are less complex than Wilshire's product. Mr. Tito said he wouldn't offer a desktop software package that wouldn't permit the complete use of Wilshire analytics.

After more than two years of working with IBM Corp., and testing the product at nine client sites, Wilshire is offering the analytics software with a work station. It is an IBM PS/2 Model 70, with a 120-megabyte fixed disk and six megabytes of memory. It uses a 9600 baud modem for transferring data.

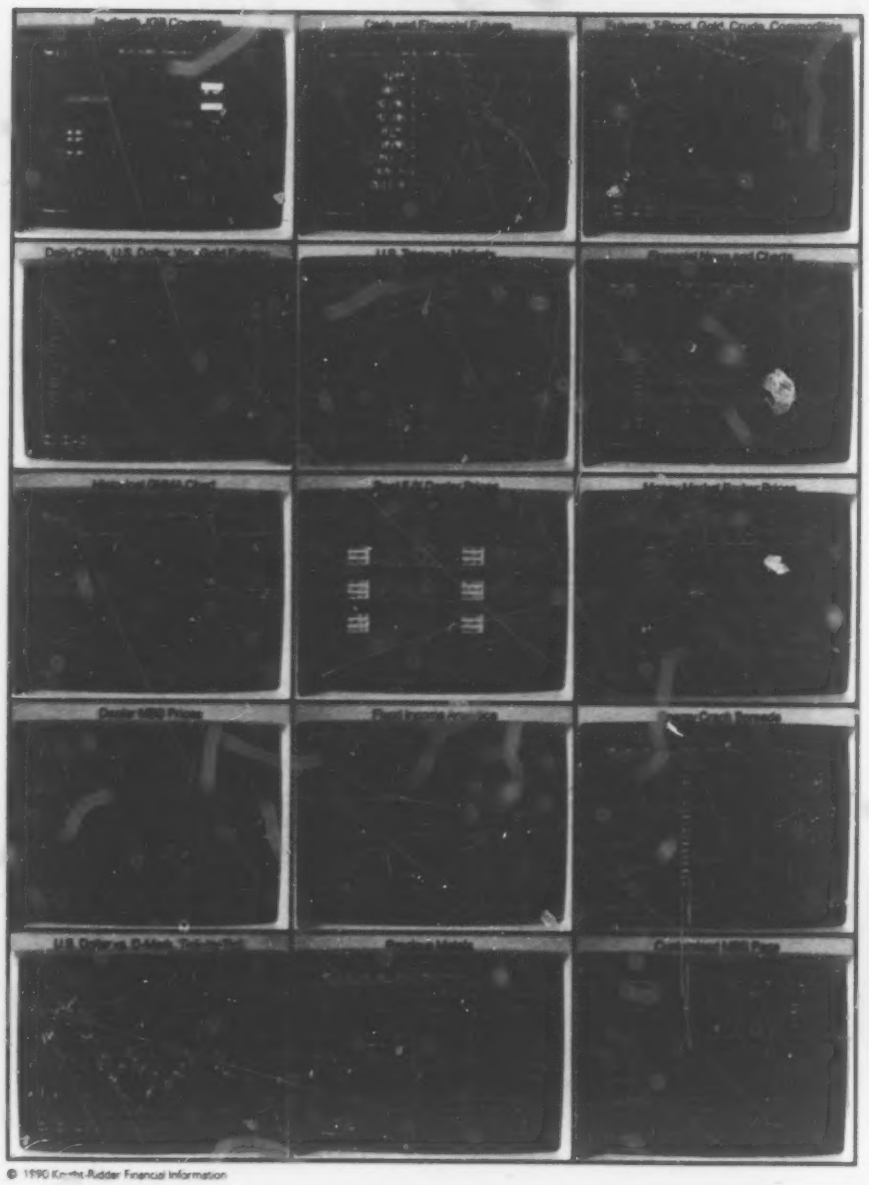
The cost, including the use of the hardware, is between $30,000 and $50,000 annually.

With that system, said Mr. Raab, Wilshire can automatically upload 6,000 bond prices each night into the system in six or seven minutes. Once loaded, the system can optimize a portfolio performing calculations that can take five minutes instead of an hour or longer, according to Mr. Raab.

The system also does what Mr. Raab called true multitasking, permitting the computer to work at high speed on more than one task.

Wilshire also offers two similar applications for equity investing. ■

The Big Picture.



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PIPER figures are amended

Editor's note: *The following firms had funds that missed the deadline, were omitted or were in error when listed in the Pensions & Investments' Performance Evaluation Report for periods ended Dec. 31. All figures, except PIPER and PIPER+ international and global, are for funds that would have placed in the top decile of their universe. Information was provided by M.J. McKinnon of Rogers, Casey & Associates, which compiles PIPER. All figures for periods of more than one year are compound annualized.*

Equitable Capital's PIPER Special Equity Convertibles Fund returned 5.7% for one year and 12.1% for five years.

The Corporate Equity Fund for **First Illinois Bank** in PIPER returned 5.3% for one year and 15.6% for five years.

Minnesota Mutual Life through **MIMLIC Asset Management**'s PIPER Equity Separate Account C returned 2.1% for one year, 9.4% for five years and 12.8% for 10 years.

Ashfield & Co.'s PIPER+ Equity fund returned 15.7% for five years and 19.2% for 10 years.

The Balanced PIPER+ fund of **Godsey & Gibb Associates** returned 4.6% for one year and 12% for five years.

Grantham, Mayo, Van Otterloo & Co.'s Active International PIPER+ fund returned 20% for five years and 21.3% for 10 years.

Japan

Continued from page 1

quently at a 37% premium. Yamaichi Securities Co. Ltd., Tokyo, was lead manager.

At least six U.S. companies are expected to sell minority stakes in their Japanese subsidiaries through public offerings, investment bankers say, representing a quickening of the pace of such issues.

Since 1989, a half-dozen foreign companies — including PepsiCo's Kentucky Fried Chicken Co. in 1990 and privately held Levi Strauss & Co. — have done such offerings. By contrast, only 12 other American and British corporations had sold such stakes in units since 1961.

Levi Strauss, which sold 15% of its Japanese unit to the public in 1989 for $80 million, is seeking Ministry of Finance permission to sell more, which would raise the public shares to 33%.

"Ours was a classic situation of very rapid growth," said Joseph M. Maurer, vice president and treasurer of Levi in San Francisco. "We could have used intercompany loans from the U.S. (to finance expansion), but we generally like our subsidiaries to be self-financing . . . We wanted to become more Japanese as a company."

Meanwhile, hundreds of privately held Japanese companies are expected to sell stock publicly. Nomura Securities International Inc., New York, predicts there will be 5,000 publicly traded companies in Japan by 2000, compared with 1,900 today.

"The Japanese market's comeback bodes very well for IPOs," including those of foreign subsidiaries, said Gregory V. Coggiano, vice president-investment banking of Nomura, which was lead manager on the sale of a minority stake of a Japanese Avon Products Inc. subsidiary in December 1987. The Nikkei Over the Counter average, which bottomed at 2197 Oct. 1 after falling 47% from its peak of 4149 July 9, has since rallied.

OTC securities, which include many IPOs, are traded via telephone. In November, the Japan Association of Securities Dealers Automated Quotations will replace this low-tech system with an on-line computerized transactions system. That will facilitate a potential surge in IPOs, accommodating more volume and more issues.

The increasing size and liquidity of the market will attract Japanese pension funds to invest heavily in OTC stocks, further expanding the market, Nomura suggested.

Japan restricts the proceeds of IPOs. Proceeds from the sale of existing shares may be repatriated to a subsidiary's parent, but the proceeds from the sale of new shares must remain in Japan, according to Hidemi Suzuki, executive vice president of corporate finance at Nikko Securities Co. Ltd., New York. At least part of most offerings are new shares.

"It's generally considered more favorable for the offering if it includes primary shares . . . Most of the transactions have included primary shares partly because the subsidiary needed to raise capital and partly from the standpoint of perception and the success of the offering," said Hugh Winokur, vice president, Goldman, Sachs & Co., Los Angeles.

Customarily, Mr. Suzuki said, a large portion of the shares issued are purchased by vendors and other firms with which the subsidiaries do business.

Levi Strauss, while it chooses to be a private company in the United States, wants public ownership in Japan. "Public companies have more prestige and are viewed more positively," Mr. Maurer said.

Because Levi Strauss is a private company, the subsidiary is not allowed to list on the second section of the Tokyo Stock Exchange, which contains small to medium-size companies.

The subsidiary's shares currently trade over the counter. Mr. Maurer is optimistic the firm will gain an exception to the listing restriction because the parent provides the same disclosure as public U.S. companies.

In many cases, the foreign subsidiaries are joint ventures with Japanese companies. For instance, Kentucky Fried Chicken Japan is an affiliate of Mitsubishi Corp. Often the lead investment bank is chosen based on its long-standing relationship with the Japanese partner in the venture.

Such was the case with Kentucky Fried Chicken. Nikko, the lead manager, has a long-standing relationship with Mitsubishi, which, along with PepsiCo, sold 6 million shares in the company in an IPO.

Bankers are eager for IPO business largely because of the potential future financing needs of the client.

"We believe the OTC market in Japan is now in a similar condition to the OTC market in the United States in 1979 to 1980," according to a Nomura report. "NASDAQ started operating in 1971 and performed strongly in the early 1980s and thereafter. We believe that with a time lag of some 10 years, we are about to see a repeat performance of the American experience in Japan." ■

TAA

Continued from page 3

ments at the $4.1 billion pension fund. The benchmark is a 65% equities, 35% fixed-income mix.

The stock and bond markets' response to the Iraqi invasion of Kuwait was a factor fundamental models could not anticipate. "Last year was one of those years that political risk was more influential than usual," said Steve Lauer, senior vice president at Bankers Trust Co., New York.

Bankers Trust runs $1.3 billion in TAA assets and uses its model to manage an additional $6 billion in balanced, equity and fixed-income accounts.

At the time of the invasion, Matrix Capital Management's position was basically neutral — 65% stocks, 34% bonds and 1% cash — close to its benchmark allocation of 60% stocks, 30% bonds and 10% cash. Mike Petrino, president of the Greenwich, Conn., firm, said the Middle East crisis was an event not quantifiable in a fundamental model. He added the firm, which posted a 1.3% return for its TAA strategy, was able to do better than the S&P return because it could hold bonds.

"We got out of the (stock) market on July 19," said James Ayers, president of J.H. Ayers & Co. Inc., Colorado Springs, Colo. Assets were shifted from 100% equity mutual funds to 100% money markets, a position the firm has maintained. The firm's composite TAA account returned 14% for 1990, the highest return in *P&I*'s survey.

Bankers Trust and Chancellor, although slightly underweighted in equities, maintained a relatively neutral position. Both moved small amounts of assets into bonds rather than cash.

Bankers Trust's benchmark allocation is 55% S&P 500 stocks, 35% Salomon Broad Investment Grade Bond Index bonds and 10% cash. Equity positions ranged from 45% to 55% throughout the year.

J.P. Morgan Investment Management Corp., New York; TSA Capital Management, Los Angeles; and Avatar Associates, New York were positioned more defensively during July and August.

TSA, in a relatively neutral position through July with 54% stock and 46% bonds — near its 50% stock and 50% bond benchmark — moved heavily into bonds, allocating 96% in August, 90% in September and 88% in October. By November, its asset weightings more closely matched its normal allocation with 47% stocks and 53% bonds.

Avatar spent half of the year in moderate postures — 40% stocks, 40% bonds and 20% cash — until just prior to the invasion, when the firm took a defensive position, said Bruce Poliquin, vice president. To preserve capital, the firm moved into cash, changing its asset mix to 25% stocks, 35% bonds and 40% cash in its three-way accounts. Avatar then moved back into the market by the fourth quarter, with 45% stocks and 55% bonds. The three-way fund returned 1.7% for the year.

Kate Leary Lee, president of R.M. Leary & Co. Inc., Denver, said its model moves 100% of assets between classes. Its 5.89% return is a composite of returns of several TAA accounts, ranging from 11.4% to −3.51%. It had back-to-back losses the first two quarters, shifting assets to cash from stocks, but gained in the third quarter by holding bonds and the fourth quarter by moving back into equities. ■

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